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Western Europe: Caught in a Fiscal Squeeze

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An Intelligence Assessment

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EUR 83-10182
June 1983

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Western Europe: Caught in a Fiscal Squeeze

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An Intelligence Assessment

This paper was prepared by Office of European Analysis. It was coordinated with the National Intelligence Council. Comments and queries are welcome and may be directed to the Chief, Economic Issues Branch, EURA,

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Key Judgments

Information available as of 24 June 1983 was used in this report.

West European governments face big budget deficits and slow growth. They are constrained from employing fiscal stimulus out of fear that deficits—now averaging 5 percent of West European GDP—are raising interest rates and retarding economic growth. At the same time, reducing budget deficits would risk additional economic, political, and social strains on top of those generated by three years of economic stagnation. Nonetheless, West European voters want stable, noninflationary growth, and they increasingly doubt the ability of higher government spending to provide it.

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West European governments are trying to limit spending by placing caps on government salaries and social security benefits, and even scrutinizing politically sensitive social welfare programs. Salaries alone account for more than one-fourth of government spending while social security and welfare payments make up almost one-half. France, the United Kingdom, Italy, Belgium, Denmark, and the Netherlands all plan to keep government pay raises at or below the expected inflation rate; West Germany, France, the United Kingdom, Belgium, Denmark, and the Netherlands are shaving social welfare programs. Almost every West European country is raising income, value-added, excise, or social security tax rates, albeit only modestly. Most governments are banking on economic recovery to pull up revenues.

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We believe that most West European efforts to reduce budget deficits will be blocked by a continued rise in unemployment this year. According to national sources and OECD data, the government sector deficits of the four major West European countries—West Germany, France, the United Kingdom, and Italy—would on average disappear if one-half of the unemployed could find jobs. The economic upturn expected this year probably will only retard the rise in jobless rates, already in double digits in most of Western Europe.

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Interest payments also will remain an obstacle to reducing deficits. For the four major West European countries, total interest payments on government debt amounted to 80 percent of their overall deficit in 1982. Although the falloff in interest rates that began in 1982 should ease part of the burden, we estimate that the increase in total debt from last year's deficits will offset the gain from lower rates in several countries.

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Reluctant to apply fiscal stimuli of their own, West European governments are likely to look even more to the United States as the locomotive for world economic recovery. They will press Washington to lower interest rates and stimulate growth. The West Europeans argue that they cannot lower their interest rates unless US rates fall because the resulting depreciation of their currencies against the dollar would further boost import costs and inflation.

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Even with faster US growth and lower interest rates, the economic recovery in Western Europe probably would prove too sluggish to reduce unemployment or budget deficits substantially in 1983. If the upturn fails to produce jobs, political pressure to protect jobs with trade barriers would remain high and could even worsen.

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Table 1
Western Europe: General Government Budget Balances as a Share of GDP [a]

Percent

	1960	1970	1973	1974	1975	1979	1980	1981	1982	1983 [b]
Western Europe	**0.9**	**0.4**	**−0.6**	**−1.6**	**−4.2**	**−3.2**	**−3.1**	**−4.5**	**−5.0**	**−5.1**
Big Four	**0.9**	**0.1**	**−1.5**	**−2.5**	**−5.6**	**−3.4**	**−3.1**	**−4.3**	**−4.6**	**−4.6**
West Germany	3.1	0.3	1.2	−1.4	−5.8	−2.9	−3.5	−4.0	−3.9	−3.6
France	0.9	0.9	0.9	0.6	−2.2	−0.6	0.6	−1.5	−3.0	−3.1
United Kingdom	−1.0	2.6	−3.5	−3.8	−4.9	−3.1	−3.2	−2.4	−2.0	−2.0
Italy	−0.9	−5.0	−8.5	−8.1	−11.7	−9.4	−8.4	−11.9	−12.4	−12.7
Small Fifteen [c]	**0.8**	**1.0**	**1.7**	**0.7**	**−0.7**	**−2.6**	**−3.1**	**−5.0**	**−6.0**	**−6.2**

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises. Data are for calendar years.
[b] Estimate.
[c] See appendix B, table 11 for data on the smaller West European countries.

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Table 2
Western Europe: General Government Spending as a Share of GDP [a]

Percent

	1960	1970	1973	1974	1975	1979	1980	1981	1982
Western Europe	**30.3**	**36.4**	**38.4**	**40.5**	**43.9**	**45.3**	**46.8**	**48.6**	**50.0**
Big Four	**32.5**	**37.8**	**39.6**	**41.9**	**45.4**	**45.5**	**46.5**	**48.5**	**49.9**
West Germany	32.0	37.6	40.5	43.4	47.1	47.6	48.1	49.0	49.5
France	34.6	38.9	38.5	39.7	43.5	45.5	46.4	48.9	52.2
United Kingdom	32.6	39.3	41.1	45.2	46.9	42.0	44.0	45.1	44.2
Italy	30.1	34.2	37.8	37.9	43.2	45.6	46.4	51.1	54.4
Small Fifteen [b]	**25.4**	**33.6**	**36.1**	**37.5**	**40.7**	**44.7**	**47.3**	**49.0**	**50.4**

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises. Data are for calendar years.
[b] See appendix B, table 12 for data on the smaller West European countries.

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Western Europe: Caught in a Fiscal Squeeze

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The Magnitude and Causes of the Deficits

West European governments are struggling with their largest budget deficits since economic recovery from World War II began. At the height of the boom in 1973, only five of the 19 West European countries had deficits; by 1979, the year of the second major oil price hike, only three were operating in the black. The deficits for the West European countries totaled about $150 billion in 1982, 5 percent of their combined gross domestic product (GDP) (see table 1 and box).

To a large extent, Western Europe's fiscal difficulties stem from a commitment to maintain social programs in the face of higher unemployment and slower economic growth brought about by the OPEC oil price rises over the last decade. Total spending levels rose more rapidly than the overall growth of the economies. From 1973 to 1982, government spending as a share of GDP increased by almost 12 percentage points, rising from 38 percent to 50 percent (see table 2). Nominal spending in the European Community nearly tripled in this period, rising from $450 billion to $1,210 billion, up 47 percent in real terms. About one-half of the increase went to higher outlays for social benefits, one-fourth for government employees, and one-fifth for interest on the public debt.

Government revenues grew at a slower pace. By 1982 total revenues of the West European governments amounted to about 45 percent of their combined GDP, up 7 points from the 1973 level. For most countries, the tax-bracket creep that accompanies inflation provided the largest share of the revenue increase. In addition, all countries increased rates for value-added taxes (VAT), income taxes, or excise taxes.

Measuring Government Budgetary Positions

We calculate West European government budgetary positions by using the national income accounts definition of government sector spending, revenues, and balances, and measure them as a share of gross domestic production (GDP)—the total value of goods and services produced within a country. The government sector consists of the central government, state and local governments, and autonomous social security agencies; it excludes government-owned enterprises such as the telephone system, television and radio networks, railroads, airlines, and public transit systems that are often included in West European government budgets. Because government sector data come from the national income accounts, we avoid inconsistencies caused by fiscal years that start in different months. By measuring the size of budgets as a share of GDP, we can make comparisons among economies of different sizes.

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Unemployment Costs. The largest factor contributing to the burgeoning deficits in Western Europe has been mounting unemployment. Although we have estimates of the added budgetary costs of higher unemployment only for 1981-82, a clear correlation exists between growing joblessness and mounting budget deficits in Western Europe since 1970 (see figure). In particular, budget deficits in real terms expanded appreciably in both the 1974/75 and 1981/82 recessions. In these periods, spending continued to advance unabated—as a share of GDP it grew even more rapidly than in other periods—and revenue growth slackened.

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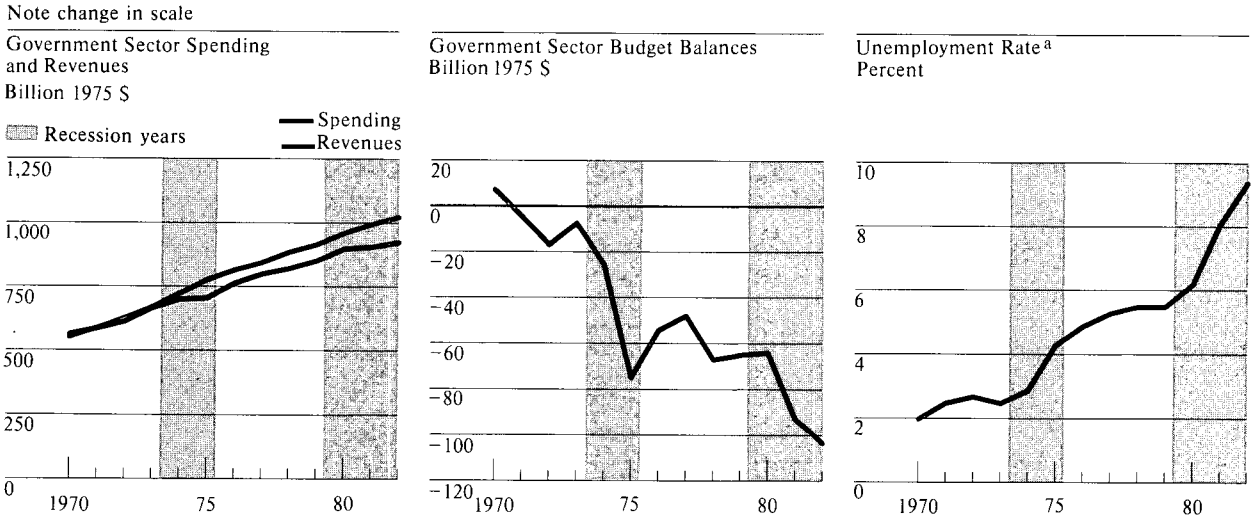
Western Europe: Domestic Economic Indicators



[a] European Community only.

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Unemployment worsens the budget deficit because jobless workers receive benefits from the government but stop paying income and social security taxes (they still pay VAT and excise taxes on their purchases). Not only do the jobless receive unemployment compensation, but they also get additional payments—such as child support—as their earned income falls. Government administrative costs also tend to go up.

Unemployment has an even greater impact on West European budgets than on US budgets because West European benefits generally replace a greater share of the unemployed workers' previous income for a longer period. In West Germany benefits replace 68 percent of pretax income for the first two years of unemployment and 50 percent thereafter; in Belgium, the Netherlands, and Denmark, unemployment compensation and related welfare payments can provide up to 90 percent of previous income with no time limit. According to estimates by the Netherlands Central Bank, some jobless Dutch workers have more after-tax income than they earned while working. In Spain unemployment compensation provides up to 87 percent of base pay but for only 18 months. In the United States, government unemployment compensation is limited to less than a year and, according to the Department of Labor, averages less than 40 percent of previous income.

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Budget deficits did not improve much in the 1976 to 1980 period despite an economic recovery because unemployment caused by changes in the structure of the West European economies more than offset the

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number of people returning to work. The rise in energy prices and greater competition from LDCs made traditional high-wage, energy-intensive industries like steel and shipbuilding uncompetitive, leading to permanent cuts in employment. Moreover, to improve competitiveness these same industries undertook rationalization programs that improved labor productivity and led to additional layoffs. Thus, industrial employment in Western Europe, which exceeded 57 million workers in 1973, fell by more than 3 million by 1980; the unemployment rate has increased without a break from 2.5 percent in 1973 to more than 10 percent this year. The failure of West European economies to expand service industries rapidly enough or to create new industries like electronics further constricted growth in the demand for labor. The stagnant demand for labor hit new entrants to the labor force particularly hard; for every 10 people entering the labor force in Western Europe during the 1970s, only three found jobs. Governments themselves provided some of the new jobs, but this also increased government spending.

By using a combination of national government data on the costs of unemployment benefits and OECD estimates of the revenue losses caused by a 1-percentage-point change in unemployment rates, we estimate that the average government sector deficit of the Big Four [1] would disappear if roughly one-half of the unemployed could find private-sector jobs (see table 3). The estimates by country vary widely. General government budgets would be balanced for West Germany if the unemployment rate fell 7 percentage points to 3 percent, for France if the rate dropped 3 points to 6 percent, and for the United Kingdom if the rate slipped only 2.5 points to 10 percent. Italy's government sector deficit, on the other hand, would fall by only about one-third if all the unemployed found jobs. With the exception of West Germany, most of the budgetary improvement would result from the additional taxes that the newly employed would pay; the revenue forgone by their continued unemployment is considerably greater than the cost of unemployment benefits.

[1] West Germany, France, the United Kingdom, and Italy account for two-thirds of Western Europe's GDP.

Table 3 *Percent*

Big Four: Change in Budget Balances as a Share of GDP Due to a 1-Percentage-Point Change in Unemployment [a]

	Change in Balance	Change in Spending	Change in Revenues
Big Four	**0.7**	**0.3**	**0.4**
West Germany	0.5	0.3	0.2
France	1.1	0.5	0.6
United Kindgom	0.8	0.3	0.5
Italy	0.4	Negl	0.4

[a] Excluding multiplier effects. Data on spending come from national government estimates, and revenue data are OECD estimates.

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Debt Service Costs. Interest payments on public debt also have accounted for a large share of West European government deficits. The runup in interest rates, particularly during 1979-81, boosted the costs for new or rolled-over government borrowing as well as for loans based on floating rates. The Italian, Belgian, and Irish budgets were the most severely affected because of their enormous deficits and relatively poor credit ratings. As each country's ability to borrow deteriorated, the governments turned more to short-term maturities for financing. As a result interest costs for the three countries rose faster with each increase in interest rates than for other West European governments who still held long-term loans at lower rates (see table 4). By 1981 Italian, Belgian, and Irish interest payments on government debt had reached 7.5 percent, 7.9 percent, and 8.4 percent of GDP, respectively. Although the falloff in interest rates that began in 1982 should ease part of the burden, we believe that the increase in total debt from last year's deficits will offset the gain from lower rates in these countries. The stronger US dollar also is hurting countries like Belgium, Denmark, and Ireland that rely heavily on foreign debt—usually dollar-denominated—to finance budget deficits.

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Table 4
Selected West European Countries: General Government Debt as a Share of GDP [a]

Percent

	Total	Domestic	Foreign	Short-Term	Long-Term
1973					
Big Four					
West Germany	17.8	17.4	0.4	1.9	15.9
France [b]	16.9	16.2	0.7	13.0	3.9
United Kingdom [c]	71.9	60.9	10.9	26.1	30.7
Italy [d]	46.1	NA	NA	25.3	20.8
Other					
Belgium	64.2	63.6	0.6	6.9	57.3
Denmark [e] [f]	−13.6	−17.9	4.3	0 [g]	7.4 [g]
Greece [b]	19.5	14.4	5.1	8.0	11.5
Ireland [b] [f]	53.0	48.3	4.7	NA	NA
Luxembourg [b]	21.5	17.9	3.6	1.4	20.1
Netherlands	41.4	NA	NA	3.5	37.9
1981					
Big Four					
West Germany	35.1	30.8	4.3	4.2	30.9
France [b]	17.3	16.8	0.5	12.2	5.1
United Kingdom [c]	58.8	51.8	7.0	18.6	30.9
Italy [d]	64.9	NA	NA	44.8	20.1
Other					
Belgium	88.6	77.7	10.9	24.9	63.7
Denmark	16.3	2.5	13.8	7.2 [g]	36.1 [g]
Greece [b]	40.4	32.6	7.8	14.1	26.3
Ireland [b]	98.4	62.7	35.7	NA	NA
Luxembourg [b]	22.1	20.1	2.0	0.8	21.3
Netherlands	47.2	NA	NA	5.8	41.4

[a] Data may understate total government debt in cases where government-owned banks borrow in their own names for the state.
[b] Central government.
[c] Public sector. Data on maturities do not add to the total shown because some British public debt has no maturity date.
[d] Excludes central government debt owed by autonomous central government bodies and the postal savings system.
[e] Minus sign represents net creditor position; maturity data show gross borrowing.
[f] Data are for 1974.
[g] Gross debt.

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Efforts To Reduce Deficits

West European governments are making greater efforts than in previous years to brake spending while raising taxes modestly. Paris wants to limit central government borrowing this year to 3 percent of GDP—the same as last year. The British Government plans to hold the public-sector borrowing requirement

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(PSBR) [2] to 2.75 percent of GDP in fiscal year 1983/84, down from the 3.25-percent target in fiscal year 1982/83. The Belgian Government hopes to trim central government borrowing from last year's 12.8 percent of GDP to about 12.0 percent this year.[3]

Public-sector salaries, which average more than 25 percent of government spending, are a prime target of budget cutters. Several governments are trying to keep the nominal increase in total public-sector pay at or below the expected inflation rate in 1983. The new Dutch Government is leading the way with a pay freeze, while government pay increases are being limited to 3.5 percent in the United Kingdom (about 2 percentage points below inflation), 4 percent in Denmark (3 points below inflation), and 6 percent in Belgium (2 points lower than the inflation rate). Both France and Italy plan to hold government raises to projected increases in consumer prices—8 percent in France and 13 percent in Italy. In general, real spending on public salaries is to be down by 2 to 3 percent, perhaps $3 billion less than if salaries had risen as rapidly as inflation.

A number of West European governments also are beginning to tackle what they believe is the more fundamental—and certainly more politically sensitive—budgetary problem of social welfare spending, which accounts for almost one-half of government spending in the European Community. West Germany and France are delaying cost-of-living increases on social security benefits; the Netherlands and Belgium are placing a cap on social security adjustments; and Denmark is freezing benefits. Paris not only is looking for ways to cut spending on old-age benefits but also wants to reduce unemployment compensation. The government of West German Chancellor Helmut Kohl has changed the formula for calculating unemployment benefits to make the allowances less costly to the government sector.

[2] The PSBR includes the deficits of the central government, local governments, and social security programs as well as borrowing by government-owned enterprises and quasi-governmental organizations.

[3] Appendix A describes recent attempts by the major West European countries to balance the budget.

Governments are looking for fixes on the revenue side as well. Increases in the VAT and other indirect taxes—such as those on gasoline, tobacco, and liquor—are going into effect this year in West Germany, France, the United Kingdom, Italy, Sweden, Belgium, Norway, Finland, Greece, Portugal, and Ireland. Oslo and London, however, are offsetting some of the indirect tax increases by trimming income tax rates. 25X1

To narrow further the deficits caused by the social welfare systems, social security taxes are being raised in several countries. Employers will pay more in Italy, Denmark, and Sweden, while employees will bear the additional taxes in West Germany, France, the Netherlands, and Norway. French Government employees will pay some social security taxes for the first time. 25X1

Results of the Budget-Cutting Exercise

We estimate that the changes in spending and tax policies approved this year are generally too small to offset the mounting unemployment and debt servicing costs. Sharp spending cuts have been ruled out because strong public support for existing social programs has encouraged politicians to defend current spending policies. The changes, however, should keep government deficits from expanding much more than $5 billion in 1983 and lay the groundwork for substantial improvement next year, when the economic recovery is expected to accelerate. 25X1

The French austerity program should enable Paris to keep the government sector deficit from ballooning this year. After running a smaller deficit than planned in 1982, the British government sector deficit will increase somewhat this year as tax cuts become effective. Nonetheless, the United Kingdom will still have proportionally the smallest government sector deficit of the Big Four. The Italian government sector deficit—already 12 percent of GDP—is likely to worsen further because of Rome's continued inability to control spending in the face of economic stagnation. The spending cuts and tax changes enacted by the 25X1

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Table 5
Western Europe: Central Government Budgets [a]

	Fiscal Year 1982	Fiscal Year 1983
West Germany (*billion marks*)		
Expenditures	244.7	253.8
Revenues	207.0	211.8
Balance	−37.7	−42.0
Share of GDP	2.4	2.5
France (*billion francs*)		
Expenditures	850.0	875.0
Revenues	750.0	770.0
Balance	−100.0	−105.0
Share of GDP	2.9	2.7
United Kingdom (*billion pounds*) [b]		
Expenditures	130.5	136.5
Revenues	120.5	128.5
Balance	−10.0	−8.0
Share of GDP	3.2	2.8
Italy (*trillion lire*)		
Expenditures	193.4	222.4
Revenues	122.5	142.7
Balance	−70.9	−79.7
Share of GDP	15.3	14.8
Austria (*billion schillings*)		
Expenditures	372.8	405.0
Revenues	300.9	320.0
Balance	−71.9	−85.0
Share of GDP	6.3	7.0
Belgium (*million francs*)		
Expenditures	1,599.6	1,714.0
Revenues	1,138.7	1,230.0
Balance	−460.9	−484.0
Share of GDP	12.0	11.8
Denmark (*billion kroner*)		
Expenditures	197.7	210.0
Revenues	140.2	141.8
Balance	−57.5	−68.2
Share of GDP	12.5	13.6
Finland (*billion marks*)		
Expenditures	65.0	74.2
Revenues	56.0	60.6
Balance	−9.0	−13.6
Share of GDP	3.8	4.8
Greece (*billion drachma*)		
Expenditures	688.0	894.0
Revenues	526.0	658.0
Balance	−162.0	−236.0
Share of GDP	6.3	7.5

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Table 5 (continued)

	Fiscal Year 1982	Fiscal Year 1983
Iceland (*million kronur*)		
Expenditures	7,900.0	12,690.0
Revenues	7,967.0	12,780.0
Balance	67.0	90.0
Share of GDP	0.2	0.2
Ireland (*million punts*)		
Expenditures	5,896.0	6,462.0
Revenues	4,908.0	5,466.0
Balance	−988.0	−966.0
Share of GDP	8.1	7.3
Netherlands (*billion guilders*)		
Expenditures	125.7	130.2
Revenues	106.8	111.3
Balance	−18.9	−18.9
Share of GDP	5.1	4.9
Norway (*billion kroner*)		
Expenditures	139.3	156.2
Revenues	147.9	165.7
Balance	8.7	9.5
Share of GDP	2.3	2.3
Portugal (*billion escudos*)		
Expenditures	590.0	670.0
Revenues	400.0	446.8
Balance	−190.0	−223.2
Share of GDP	10.5	10.4
Spain (*billion pesetas*)		
Expenditures	3,938.0	4,725.6
Revenues	2,738.0	3,275.6
Balance	−1,200.0	−1,450.0
Share of GDP	14.0	13.8
Sweden (*billion kronor*) [c]		
Expenditures	235.1	275.7
Revenues	167.1	183.9
Balance	−68.0	−91.8
Share of GDP	11.0	13.0
Switzerland (*million francs*)		
Expenditures	19,293.0	19,680.0
Revenues	18,869.0	18,709.0
Balance	−424.0	−971.0
Share of GDP	0.2	0.5

[a] National government definitions and estimates. Because central government responsibilities and fiscal years differ, the data are not directly comparable across countries. Unless otherwise stated, fiscal years begin 1 January.
[b] Fiscal year beginning 1 April.
[c] Fiscal year beginning 1 July.

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Table 6
Big Four: Economic Impact of 1983 Budget Changes From Baseline Projection [a]

	Big Four	West Germany	France	United Kingdom	Italy
	Percentage point				
GDP growth	−1.3	−2.3	−1.5	0.2	−0.7
Inflation	−1.0	−1.4	−1.5	0.1	−0.7
Interest rates	−0.2	−0.5	−0.3	0.2	−0.1
Unemployment rates	0.4	0.9	0.5	NEGL	0.2
	Billion US $				
Current account balance	3.9	5.1	NEGL	−1.4	0.2
Budget balance	13.6	7.7	8.3	−3.3	0.9

[a] Based on simulations of our Linked Policy Impact Model. The baseline scenario assumes 1982 budgetary policies are continued in 1983.

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Kohl government should lower the West German deficit this year, and similar measures should bring down deficits in Belgium, the Netherlands, and Ireland.

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Government sector deficits are likely to rise even in those countries where central governments trim their budget deficits this year (see table 5). Some of the reduction in central government deficits results from shifting responsibility for spending programs to local administrations or social security agencies. When local governments and the autonomous social security administrations cannot boost their revenues to cover the new spending, their budget balances will worsen. For example, Paris is keeping its deficit below 3 percent of GDP partly by shifting some spending to other government bodies and by creating a new capital spending budget that does not appear in the central government budget.

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The West European government sector deficits would be smaller if the economic recovery were more vigorous than we project.[4] A strong rebound in the United States and a significant drop in oil prices below $29 per barrel would help pump up sluggish growth in Western Europe. According to CIA's Linked Policy Impact Model (LPIM), a 1-percentage point increase in the US growth rate would lead to a 0.1-percentage-point boost in Big Four GDP growth and a 0.1-percentage-point drop in the unemployment rate. These results suggest that the Big Four budget deficit as a share of GDP would decline about 0.1 percentage point, or about $2 billion. A drop in oil prices from $29 to $25 per barrel would add about 0.4 percentage point to Big Four growth and thereby trim the unemployment rate by 0.4 percentage point; the budget deficit as a share of GDP would fall by 0.4 percentage point, a $8 billion improvement.

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The Economic Impact of Current Budgets

The changes in West European fiscal policies in 1983 should dampen economic activity compared with what would have been the case if this year's spending cuts and tax hikes had not been adopted. Using the LPIM, we simulated the initial economic effects of the changes in fiscal policies and compared the results with a baseline simulation that assumed no changes in fiscal policy. To isolate the impact of changes in fiscal

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[4] We project 1983 economic growth to be 1.0 percent for Western Europe, 1.0 percent for the Big Four, 1.0 percent for West Germany, 0.2 percent for France, 2.3 percent for the United Kingdom, 0.4 percent for Italy, and 1.0 percent for the smaller West European countries.

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How Budget Policies Affect Economies

Government spending tends to stimulate economic activity while financing government expenditures—with taxes or borrowing—tends to dampen economic growth. The net effect of these two factors, however, depends on how the government raises and spends its revenues, how deficits are financed, and how society reacts.

Increases in government spending can be expected to expand GDP by more than the actual change in expenditures. Some expenditures, such as investment, increase the productive capacity of the economy; other spending—transfer payments—usually redistribute income in favor of those who consume a relatively larger share of their income. Interest payments on debt usually have the opposite effect, redistributing income to those who tend to save more than the average. The larger the portion of income consumed, the larger the immediate addition to GDP. On the other hand, the more people save, the more funds will be available for investment and the lower interest rates will be; more investment may increase GDP in later periods. 25X1

Government spending can be financed with taxes, borrowing, or money creation. Taxes tend to reduce economic activity by cutting the disposable incomes of the taxpayers. Income taxes cut both consumption and saving; consumption taxes raise the cost of consumption, which can encourage more saving and thus lower interest rates. Government borrowing, on the other hand, tends to raise interest rates, thereby discouraging some private investment. Money creation, if it exceeds the amount needed by the economy to cover GDP growth, acts as an income tax by creating inflation, which reduces purchasing power and the value of real savings. 25X1 25X1

policies, we held all other policies constant for both simulations (see table 6 and box). According to the results of these model simulations:

- *Bonn's* spending cuts and tax hikes should hit private consumption hard, and these changes would pull down real GDP growth by more than 2 percentage points in 1983 from what it would have been had policies not changed. Both import demand and the demand for domestic goods and services should fall, thereby raising the current account surplus by $5 billion and leading to a 1-percentage-point rise in the unemployment rate. On the other hand, slower growth and a reduced budget deficit should trim interest rates by 0.5 percentage point and help further ease inflation. Lower interest rates in turn should boost investment, keeping GDP growth from slowing even further.

- *Paris's* austerity program should slow GDP growth by an estimated 1.5 percentage points from the baseline because substantial tax and utility rate hikes should depress private consumption. The new gasoline tax, which offsets the $4.50 per barrel drop in crude oil prices, along with the 10-percent income surtax and spending cuts should slash the government deficit. Nevertheless, the change in fiscal policies alone should affect the current account deficit little—a major factor triggering the 1983 austerity program. The fall in disposable income should lower imports, but the rise in French prices should lead to a decline in exports as well.

- *Rome's* spending cuts also should primarily affect private consumption because they are concentrated on transfer payments. Although GDP growth and inflation should be 0.7 percentage point lower, the expenditure cuts, which are not accompanied by significant changes in central government taxes, are expected to have little impact on interest rates, investment, and the current account.

- *London's* tax cuts and real spending increases should modestly stimulate the British economy in 1983. By increasing the budget deficit by $3 billion, the fiscal boost should raise GDP growth by 0.2 percentage point, inflation by 0.1 point, and interest rates by 0.2 point. The incremental growth should be too small, however, to bring down unemployment.

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Because we assumed all other policies to be constant, the simulations probably overstate the actual contractionary effects in West Germany and understate the stimulus in the United Kingdom; low and declining inflation and interest rates probably will allow the two countries to pursue more stimulative monetary policies. Because the French franc probably will continue to weaken, the simulated fall in French inflation is overstated.

A number of West European governments are restructuring spending and taxation to foster investment and job creation. During the 1970s government investment bore the brunt of efforts to contain growing budget deficits because capital budgets were easier to cut than politically sensitive transfer payments or government consumption. Austria, France, Greece, Spain, Sweden, and Turkey now are boosting government investment and public works construction. To stimulate housing, Brussels is cutting the VAT on building materials, and Bonn is imposing a "compulsory loan" on high incomes—in effect, a surtax—to fund interest rate subsidies. The West Germans and Austrians are promoting investment by giving interest rate subsidies and direct grants to private companies. Norway is exempting some private investment from the investment tax, while France and Finland are temporarily lowering employer taxes.

Shifting government expenditures toward investment and away from consumption or social welfare payments may improve economic performance in later years, but should have little short-term effect because the level of overall government spending does not change. The immediate impact could be negative if investment projects take time to get under way. Once investment increases the productive capacity of the economy, however, its stimulus for economic growth will last several years. Similar results derive from restructuring taxes in favor of investment.

Prospects for Budget Balancing

We believe that most West European governments will put more emphasis on reducing budget deficits over the next few years than using government spending as an economic booster. Only the United Kingdom, where the deficit has already been trimmed significantly, and perhaps the Scandinavian countries are likely to provide more fiscal stimulus. Leaders in countries running large budget deficits appear convinced that the negative impact of high interest rates, aggravated by large government deficits, more than offsets the gains from fiscal stimulus. West German Economics Minister Lambsdorff's criticism of the budget deficit contributed to his Free Democrats' defection from Helmut Schmidt's coalition. In Denmark, outsized budget deficits have moved the government sector from a net creditor position in 1975 to a net debtor position of $20 billion this year, equivalent to 36 percent of GDP. Since taking office Prime Minister Poul Schlueter has made control of public finances his government's prime economic goal. Belgian Prime Minister Wilfried Martens has repeatedly risked his government's survival by trying to get budget cuts accepted by the fractious parties in his coalition. 25X1

Moreover, we do not expect a groundswell of public support for major spending programs to develop soon. Politicians and journalists alike in West Germany, the United Kingdom, Belgium, and Spain have expressed surprise that record high, double-digit unemployment rates have not spawned stronger public demands for fiscal stimulation. Public quiescence on this issue results from a number of factors, some unique to Western Europe: 25X1

- Generous government benefits have reduced much of the economic deprivation caused by unemployment.
- The steady rise in joblessness over the last 10 years may have made the public less sensitive to high unemployment rates.
- Earlier unsuccessful efforts by the Mitterrand government to stimulate the French economy may have convinced many West Europeans of the futility of unilateral action. 25X1

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While public concern over the economy remains high, most do not expect their governments to stimulate their economies. 25X1

West German 25X1

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voters—as well as other West Europeans—want stable, noninflationary economic growth, and they increasingly doubt the ability of higher government spending to provide it. Since the recession began in 1979, West Europeans have voted more often for restraint in government spending than for new government programs. Only in a few countries such as France, Greece, and Spain—where conservative parties had been in control for many years—did voters choose stimulative economic programs. The French Government was forced to moderate its stance after a year in office; the Greek Government never implemented all that it had promised; and the Spanish Government has shown few differences in economic policy from its more conservative predecessor.

While increasingly skeptical about the merits of stimulating the economy with budget deficits, West European electorates continue to favor social welfare programs. Polls conducted by the US International Communications Agency in preparation for the Ottawa and Versailles economic summits in 1981 and 1982 showed that the Big Four countries would rather accept higher inflation than significant cutbacks in social expenditures. Recent indications suggest continued popular sensitivity to welfare considerations. The US Embassy in Bonn reported in late 1982 that newly installed Christian Democratic government officials believed that continued high social spending is needed to prevent class conflict. The Danish press attributed last year's riots in Copenhagen partly to the government's austerity measures. Some of the recent demonstrations in Paris protested cutbacks in social programs.

Implications for the United States

We believe that the perceived need to stay within politically acceptable bounds in reducing budget deficits will lead West European governments to rely increasingly on the US economy to pull the region out of its economic malaise. Implicitly, if not explicitly, West Europeans expect the United States to become the "locomotive" for industrial country growth. As a result, West European leaders are likely to increase pressure on the US Government to adopt policies aimed at promoting growth.

Wary of additional fiscal stimulus, most West European governments would prefer to ease monetary policies in an effort to prompt economic growth.[5] West European demands for further reductions in US interest rates have continued to grow. Several West European central bankers, who have no political ax to grind, have publicly blamed the US mix of tight monetary policies and growing budget deficits for the continuation of high real interest rates in Western Europe. For example, Bundesbank President Karl Otto Poehl wrote in the *Frankfurter Allgemeine Zeitung* on 1 March 1983 that the United States, among other countries, must change its economic policies before West European economies can recover. Also, Swiss National Bank President Fritz Leutwiler frequently has called on Washington to cut its budget deficit as a contribution to economic recovery in the industrialized world. 25X1 25X1

The West Europeans argue that a drop in their interest rates without a comparable reduction in the United States would weaken West European currencies against the US dollar, leading to increased inflation from rising import prices. More expensive imports in turn would lead to a drop in total West European purchasing power at a time of slow economic growth. Although a strong dollar should eventually increase West European exports and reduce the competitiveness of US products, West European leaders appear convinced that a further strengthening of the dollar is not in their countries' best interests. 25X1

The West European focus on reducing deficits, by retarding growth and thereby inhibiting job creation, will cause additional pressure to protect jobs through trade restrictions. We believe that West European economies are unlikely, in part because of fiscal discipline, to improve enough over the next year or two to reduce unemployment rates substantially from double-digit levels. Political pressure for trade barriers probably will mount even faster once the West European economic recovery is under way, imports begin to rise, and unemployment remains high. 25X1

[5] According to an econometric simulation using our LPIM, a 1-percentage-point drop in Big Four interest rates—holding other policies constant—would raise average economic growth by 0.3 percentage point, lower the average unemployment rate by 0.2 percentage point, and cut budget deficits by an average 10 percent. In the United Kingdom, the stimulative effect of cutting interest rates by 1 point almost equals the stimulus provided by this year's fiscal policies. 25X1 25X1

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Appendix A

Big Four: Recent Budget Developments

West Germany

The West German Government has been attempting to reduce the federal deficit for the past few years, but with little success. In 1982 the total government sector deficit remained virtually unchanged at about 4 percent of GDP despite Chancellor Helmut Schmidt's efforts to cut the deficit to 3.5 percent of GDP (see table 7). The original budget trimmed federal spending for health, employment promotion, housing, and social security payments; in addition, excise taxes were increased and tax deductions reduced. The effects of the recession, however, overpowered these budgetary adjustments. Revenues slipped and unemployment insurance outlays grew, leading to a federal government deficit alone of 37.7 billion West German marks—10.9 billion marks over the target adopted in December 1981. Local governments, however, successfully cut their deficits by slashing public investment. Overall, total government sector spending remained flat after adjusting for inflation, compared with real increases of 3 percent in 1980 and 2 percent in 1981. Real tax revenues rose only 0.3 percent, but profits from the Bundesbank helped boost the increase in total government sector revenues to 1.2 percent.

In July 1982 the Social Democratic/Free Democratic coalition submitted a draft 1983 federal budget to the Bundestag that proposed a 1.6-percent decline in real government expenditures. Under that plan, the 1983 deficit would have been cut to about 28 billion marks, but it was based on an unrealistic forecast of 3-percent GDP growth in 1983—GDP probably will advance by no more than 1 percent this year. Even though the proposed budget called for further cuts in social spending and higher taxes, leftwing Social Democrats held back their criticism to avoid giving the Free Democrats an excuse to bring down the government. In September Economics Minister Lambsdorff, a Free Democrat, submitted a paper to Schmidt outlining the economic problems facing West Germany, including the harm of high government spending on economic growth. The paper came under immediate attack from both the Social Democrats and the Christian Democrats, and precipitated the Schmidt government's resignation in October 1982.

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The newly installed Christian Democratic/Free Democratic government of Chancellor Helmut Kohl pushed a revised 1983 budget through the Bundestag in December that differed slightly from the proposed Schmidt budget. Federal spending is slated to rise this year to 253.8 billion marks—only 1.2 percent higher than the proposed 1983 Schmidt budget and still a slight decline in real terms. Bonn now projects a rise in the budget deficit to 42 billion marks, assuming a 1-percent economic growth rate.

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The Kohl budget cuts transfer payments to individuals by about 7 billion marks, delays cost-of-living increases for pensioners, and charges a larger share of hospital costs to patients. Bonn will increase subsidies to the housing industry by about 3 billion marks. Within the federal ministries, consumption will be held down and investment hiked slightly; wage increases for federal employees will be held to 2 percent.

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On the revenue side, the VAT rate will go up in July 1983 from 13 to 14 percent, yielding 2 billion marks for the federal government and an additional 1-2 billion for local governments. Taxpayers with taxable incomes above 50,000 marks will pay a 5-percent surtax for the next two years; the money, about 4 billion marks, is in effect a compulsory loan to the government and is to be returned by 1987. More than 2 billion marks in tax cuts will go to industry to encourage investment. Employee contributions to the unemployment fund will rise from 14 percent to 14.6 percent of taxable income, adding about 3.6 billion marks in revenue.

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Table 7
West Germany: General Government Budgets [a]
as a Share of GDP

Percent

	1979	1980	1981	1982
Balance	**−2.9**	**−3.5**	**−4.0**	**−3.9**
Expenditures	**47.6**	**48.1**	**49.0**	**49.5**
Consumption	19.6	20.0	20.6	20.7
Interest on public debt	1.7	1.9	2.3	2.7
Subsidies	2.2	2.0	1.8	1.6
Social security	16.8	16.7	17.3	17.9
Other transfer payments	3.8	3.7	3.6	3.5
Gross investment	3.6	3.7	3.4	3.0
Revenues	**44.7**	**44.6**	**45.0**	**45.6**
Direct taxes	12.6	12.7	12.2	12.0
Social security taxes	16.4	16.7	17.3	17.6
Indirect taxes	13.1	13.0	12.8	12.8
Other	2.6	2.2	2.7	3.2

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises.

25X1

France

French budgetary policy has fluctuated drastically since Mitterrand came to power in 1981. The 1982 French central government budget—the first budget prepared by the Socialist/Communist coalition—provided for a 27.6-percent jump in nominal expenditures and an 18.9-percent rise in revenues over the initial 1981 draft budget. Designed to give a strong expansionary push to the economy, the budget was slated to end the year 95.5 billion francs in the red, up 50 percent from 1981. Much of the increase in expenditures went to creating 61,000 civil service jobs, subsidizing employment, and substantially increasing the minimum pension payment. On the revenue side, income tax rates were lowered to compensate for inflation, and a wealth tax was introduced.

In May 1982, Paris boosted the estimate of that year's budget deficit to 105 billion francs and adopted a supplementary budget that raised revenues by 12 billion francs. Most of the supplement financed a stimulus package for private and nationalized industries. The VAT rate on most goods was hiked 1 percentage point, to 18.6 percent; the rate on basic foodstuffs, however, was lowered from 7 percent to 5.5 percent to compensate lower income individuals for the higher taxes on other goods. To deal with growing social security deficits, the Mitterrand government also decided then to raise the ceiling on taxable income by 7.4 percent in July 1982, which would help raise revenues by almost 17 percent for the year. At the same time, social security benefits were trimmed by 10 billion francs.

25X1

The Mitterrand government's expansionary fiscal policies—and accommodating monetary policies—boosted growth slightly but led to rising inflation, a widening trade deficit, and a depreciating franc. In June 1982, Paris announced an austerity package to control the balance of payments by freezing most wages and prices and to support the franc on foreign exchange markets. The plan, however, did not deal directly with the budget.

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Table 8
France: General Government Budgets [a]
as a Share of GDP

Percent

	1979	1980	1981	1982
Balance	**−0.6**	**0.6**	**−1.5**	**−3.0**
Expenditures	**45.5**	**46.4**	**48.9**	**52.2**
Consumption	14.9	15.2	15.8	16.2
Interest on public debt	1.5	1.7	2.1	2.6
Subsidies	2.0	1.9	2.1	2.6
Social security	22.3	22.8	24.1	25.8
Other transfer payments	1.8	1.8	1.8	1.9
Gross investment	3.0	3.0	3.0	3.0
Revenues	**44.9**	**47.0**	**47.4**	**49.2**
Direct taxes	7.9	8.6	8.8	9.4
Social security taxes	19.4	20.3	20.3	21.0
Indirect taxes	14.6	14.7	14.6	15.0
Other	3.0	3.4	3.7	3.8

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises.

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With the adoption later in 1982 of another supplementary budget that included spending cuts of about 7 billion francs, Paris was able to stay close to its 105-billion-franc target for the central government deficit. The social security budgets ran substantial deficits, while local governments—aided by hefty subsidies from Paris—posted their usual large surpluses. The total government sector deficit amounted to about 100 billion francs, 3 percent of GDP, and government sector spending as a share of GDP surged past the 50-percent mark (see table 8).

The two key goals for French fiscal policy in 1983 are to hold the central government budget deficit to 3 percent of GDP and to bring the social security and unemployment insurance budgets back into balance. The original draft budget called for spending to rise by 11.8 percent to 880 billion francs this year, and revenues to go up only 8.7 percent compared with the original 1982 budget. Compared with the final 1982 budget, spending and revenues would rise less than 4 percent and 2 percent, respectively—both would decline in real terms because inflation in 1983 will probably be near 10 percent. The deficit for the original central government budget was slated to reach 117.8 billion francs for the year, about 3 percent of GDP. Social security revenues were expected to rise almost as much as last year, which would represent a larger real increase because of lower inflation; benefits would increase only 5.8 percent.

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Although outlays for several programs probably were seriously underestimated, Paris probably will hold the deficit to about 3 percent of GDP—about 118 billion francs—because in March 1983 the government announced a second austerity package. To reduce the budget deficit—and import demand—the Mitterrand government cut personal disposable income by raising taxes and further trimming social benefits. It raised the petroleum tax rate to offset the decline in the price of oil from $33.50 to $29 per barrel, increased the tax on alcohol and tobacco, and boosted social security tax rates by 1 percentage point. Taking a cue from

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Table 9
United Kingdom: General Government Budgets [a]
as a Share of GDP

Percent

	1979	1980	1981	1982
Balance	**−3.1**	**−3.2**	**−2.4**	**−2.0**
Expenditures	**42.0**	**44.0**	**45.1**	**44.2**
Consumption	19.9	21.5	22.1	21.7
Interest on public debt	4.6	5.0	5.1	4.9
Subsidies	2.3	2.3	2.4	2.1
Social security	11.4	11.3	12.6	13.1
Other transfer payments	1.0	1.2	1.0	0.8
Gross investment	2.8	2.6	1.8	1.6
Revenues	**38.9**	**40.2**	**42.7**	**42.2**
Direct taxes	13.0	13.7	14.7	14.5
Social security taxes	5.9	6.2	6.4	6.6
Indirect taxes	15.7	16.9	18.0	17.9
Other	4.1	3.4	3.6	3.2

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises.

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West Germany, Paris placed a 10-percent surtax on all people liable for at least 5,000 francs in income tax. The French Government called the surtax a three-year loan that will be repaid earlier if the current account deficit is wiped out. About 15 billion francs will be cut from central government expenditures; local governments have been ordered to trim their borrowing from the central government by 2 billion francs.

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United Kingdom

The United Kingdom has been the only major West European country to reduce its budget deficits over the past few years. In the 1982/83 fiscal year ending 31 March 1983, Prime Minister Margaret Thatcher aimed to reduce the "public sector borrowing requirement" (PSBR) by 0.25 percentage point (to 3.25 percent of GDP) by holding it steady at 9 billion pounds. London was even more successful than planned, cutting the PSBR to 7 billion pounds—about 2.5 percent of GDP (see table 9).

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A combination of spending curbs and unexpected revenue caused the lower deficit. Outlays for government salaries generally did not keep pace with inflation, and pay hikes for some local governments and the National Health Service were delayed. Local governments slashed their investment, particularly on housing, to about one-half the budgeted amount. Falling interest rates eased the cost of debt service, and nationalized companies and quasi-governmental organizations borrowed less than London anticipated.

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The British Government also collected more oil revenues in FY 1982/83 than it expected. Even as the dollar price of oil was slipping, the fall of the pound against the dollar during 1982 boosted the price of North Sea oil from about 17 pounds to almost 22 pounds per barrel. Tax revenues and royalties on the higher priced oil thus may have added as much as 800

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million pounds to the Exchequer's coffers. The February 1983 oil price cut of 10 percent still leaves the price above 20 pounds a barrel.

The Thatcher government has projected an increase in public-sector spending of about 7 percent, to 121 billion pounds, in FY 1983/84. Nevertheless, British government sector spending as a share of GDP is expected to fall about 0.5 percentage point to 43.5 percent for the fiscal year. Assuming that unemployment will average 3 million people, social security outlays are slated to rise 2 billion pounds; health expenditures should grow almost 700 million pounds and public construction costs by 650 million pounds.

Through moderate spending hikes and tax relief, the British Government has budgeted an increase in the FY 1983/84 deficit to 8 billion pounds as a mild stimulus to growth. While the government is raising excise taxes on beer, wine, liquor, cigarettes, gasoline, and vehicles, some 2.5 billion pounds will be trimmed from personal income taxes and 390 million pounds from corporate payroll taxes. The budget also contains significant tax relief for companies engaged in oil exploration and development in the North Sea. The recent decline in drilling and the expected impact of falling oil prices on company spending plans has apparently convinced the government that tax relief is necessary to assure the United Kingdom of adequate oil supplies in the 1990s. The advance petroleum revenue tax is being cut from 20 to 15 percent starting in July, and the government plans to phase it out altogether by the end of 1986. New fields developed after April 1982 will no longer be subject to royalties, and the quantity of oil exempted from the petroleum revenue tax will be doubled.

Italy

Italian fiscal policy remains chaotic. The initial 1982 budget, adopted on 26 April, provided for an "enlarged public-sector deficit" (EPSD) [1] of 50 trillion lire, down 10 percent from the previous year. Only two weeks later the Treasury Ministry announced that the deficit would be 65 trillion lire and in June raised the projection another 3 trillion lire. On 31 July the government of Prime Minister Giovanni Spadolini implemented austerity measures designed to raise the equivalent of 2 percent of GDP in additional revenues, which it hoped would hold the EPSD to 60 trillion lire. These measures—consisting of higher VAT, excise, and social security taxes and cuts in spending, primarily on pensions and health benefits—were only partially implemented because of parliament's refusal to support the program. As a result, the Italian public sector ended the year 71 trillion lire in the red, equivalent to 15.3 percent of GDP. General government accounted for about three-fourths of the deficit. 25X1

25X1

General government spending as a share of GDP went up 3.3 percentage points in 1982 to 54.4 percent (see table 10). The rise in interest payments alone accounted for 0.9 percentage point of the increase, social security payments 1.2 percentage point, and government consumption (including salaries) 0.6 percentage point. 25X1

25X1

Precarious political conditions have been a key factor undermining efforts to pursue a consistent fiscal policy. The move to implement the 31 July 1982 austerity program helped bring down the Spadolini government in August. A government bill to raise the tax rate on petroleum products, which all the coalition leaders supported, was defeated on a secret vote in parliament, and Socialist leader Bettino Craxi then pulled his party out of the coalition and caused the government's collapse. A second Spadolini government was formed with the Social Democrats, the Christian Democrats, the Liberals, and Spadolini's Republicans. That government lasted only a few weeks before being replaced by a coalition headed by Amintore Fanfani, a Christian Democrat. The Fanfani government in turn fell at the end of April 1983 because the Socialists wanted more job creation measures than the Christian Democrats; elections were called for 26-27 June 1983. 25X1

25X1

The diversity of party views and the chronic factionalism of Italian parliamentary politics make any attempt to deal with the deficit a close-run proposition. The Christian Democrats would prefer to deal with

[1] The EPSD comprises the borrowing requirements of general government, autonomous agencies, municipal enterprises, and ENEL, the state-owned electricity monopoly.

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Table 10
Italy: General Government Budgets [a]
as a Share of GDP

Percent

	1979	1980	1981	1982
Balance	**−9.4**	**−8.4**	**−11.9**	**−12.4**
Expenditures	**45.6**	**46.4**	**51.1**	**54.4**
Consumption	16.6	16.7	18.3	18.9
Interest on public debt	5.8	6.2	7.5	8.4
Subsidies	2.5	2.3	2.5	2.9
Social security	15.7	15.8	17.4	18.6
Other transfer payments	3.3	3.5	3.5	3.5
Gross investment	1.7	1.9	2.0	2.1
Revenues	**36.2**	**38.0**	**39.2**	**42.1**
Direct taxes	9.9	11.3	12.7	14.2
Social security taxes	14.5	14.1	14.3	15.2
Indirect taxes	9.4	10.1	9.8	10.2
Other	2.4	2.5	2.4	2.5

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises.

25X1

the outsized EPSD by raising taxes and cutting spending. The Socialists, on the other hand, want to make selective tax cuts that would boost economic growth enough to raise total government revenues; in addition, they would crack down on Italy's numerous tax evaders, who the Socialists claim are mostly Christian Democrats. For their part, the Communists would go along with the Socialists in cracking down on tax evasion but would raise tax rates for private companies and higher income groups.

In its original 1983 budget, the Fanfani government proposed holding the deficit to last year's level of 71 trillion lire. In late March 1983, the government raised its target for the deficit to 78 trillion lire despite additional cuts in transfers to private businesses of 11 trillion lire. The draft budget, which still has not passed parliament, provides for a 9-percent rise in central government budget expenditures, 4 points below the official Italian Government inflation forecast. This outcome would be achieved by slashing transfers to local governments and to the Instituto Nazionale di Previdenza Sociale (INPS), the main social security agency. Local governments and the INPS would be responsible for their deficits, which probably would mean substantial local and social security tax hikes. As an emergency measure, the Fanfani government has asked parliament for the power to set fiscal policies for all government bodies in Italy.

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Holding the 1983 deficit to 78 trillion lire seems optimistic. Even before the March estimate, Treasury Minister Giovanni Goria warned parliament that proposed amendments to the Finance Law and new projections for spending based on economic conditions could push the EPSD to 80-85 trillion lire. Even that estimate probably is too low because the Budget Law optimistically projected a 27-percent fall in debt service costs because of lower interest rates. In March 1983 government bond yields still remained above 19 percent, down only 2 percentage points from the 1982 peak.

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Appendix B

Small Fifteen: General Government Budget Positions

Table 11
Small Fifteen: General Government Budget Balances [a]
as a Share of GDP

Percent

	1960	1970	1973	1974	1975	1979	1980	1981	1982	1983 [b]
Small Fifteen	**0.8**	**1.0**	**1.7**	**0.7**	**−0.7**	**−2.6**	**−3.1**	**−5.0**	**−6.0**	**−6.2**
Austria	−0.4	1.0	1.3	1.3	−2.5	−2.5	−2.0	−1.8	−2.2	−2.4
Belgium	−2.9	−1.1	−2.7	−1.8	−4.1	−6.9	−9.3	−13.4	−12.8	−12.1
Denmark	3.1	2.1	5.9	4.5	−1.7	−1.6	−3.2	−7.1	−9.5	−9.6
Finland	3.9	4.4	5.8	4.7	2.7	0.5	0.8	1.3	−0.4	−0.8
Greece	−3.7	−2.3	−3.5	−4.7	−5.1	−4.6	0.4	−10.1	−9.2	−8.6
Iceland	8.2	2.2	0.9	−2.4	−3.1	−2.2	−1.4	0.1	0.2	0.2
Ireland	−1.3	−4.0	−4.1	−7.5	−11.6	−12.8	−15.4	−15.4	−14.7	−14.4
Luxembourg	3.0	2.9	3.5	5.1	1.2	0.1	−1.8	−0.8	−0.9	−1.0
Netherlands	0.8	−0.8	1.1	−0.1	−2.7	−3.7	−4.1	−7.4	−8.4	−8.2
Norway	3.8	3.2	5.7	4.7	3.8	1.8	5.7	5.1	5.2	3.9
Portugal	0.6	2.7	1.4	−1.6	−5.5	−8.1	−8.8	−10.2	−10.3	−10.2
Spain	NA	0.7	1.1	0.2	NEGL	−1.8	−3.3	−4.0	−6.0	−6.3
Sweden	2.0	4.4	4.1	2.0	5.1	−3.0	−3.8	−5.3	−6.6	−8.0
Switzerland	NA	−0.5	NA	NA	−1.6	−0.5	NEGL	0.8	−0.5	−0.8
Turkey	NA	2.1	NA	NA	NA	NA	NA	NA	NA	NA

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises. Data are for calendar years.
[b] Estimated.

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Table 12
Small Fifteen: General Government Spending [a]
as a Share of GDP

Percent

	1960	1970	1973	1974	1975	1979	1980	1981	1982
Small Fifteen	**25.4**	**33.6**	**36.1**	**37.5**	**40.7**	**44.7**	**47.3**	**49.0**	**50.4**
Austria	32.1	39.2	41.3	41.9	46.1	48.8	48.5	49.7	53.2
Belgium	30.3	36.5	39.1	39.4	44.5	49.5	51.7	56.6	57.5
Denmark	24.8	40.2	40.2	44.3	47.5	51.4	55.3	56.3	57.5
Finland	26.7	31.3	31.9	32.9	37.1	38.5	38.2	39.0	40.8
Greece	23.8	29.1	28.9	31.7	32.5	35.2	35.8	39.8	42.2
Iceland	28.2	29.6	35.5	36.6	38.7	NA	NA	NA	NA
Ireland	28.0	39.6	38.9	43.1	47.2	49.0	53.1	55.8	56.6
Luxembourg	30.5	33.1	35.7	35.3	47.9	51.8	55.1	57.6	57.9
Netherlands	33.7	45.5	48.7	50.8	55.9	59.5	62.5	64.0	64.8
Norway	29.9	41.0	44.6	44.6	46.6	51.4	49.4	49.0	48.2
Portugal	17.0	21.6	21.3	24.6	30.2	30.4	33.6	36.5	39.2
Spain	13.7	22.2	23.0	23.1	24.7	30.5	32.4	34.5	35.8
Sweden	31.1	43.7	44.9	48.1	49.0	65.1	65.7	66.7	68.9
Switzerland	17.2	21.3	24.2	25.5	28.7	30.2	29.7	28.4	30.4
Turkey	NA	21.9	NA	NA	NA	23.4	NA	NA	NA

[a] Includes central and local governments and autonomous social security agencies and excludes government-owned enterprises. Data are for calendar years.

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